

February 27, 2018

U.S. Postal Regulatory Commission
901 New York Avenue NW, Suite 2000
Washington, DC 20268-0001

RE: 10-Year Regulatory Review

Dear Commissioners,

As a representative of Publishers Clearing House (PCH) and a member of the mailing industry whose livelihood depends on a viable postal system, I am writing to convey strong opposition to the changes you have proposed as a result of your 10-year review of the system for regulating rates. PCH supports and supplements the comments being made by the American Mail Alliance, PostCom, and the DMA. Last year, PCH mail activity in promotions, reply mail, parcels, bills, and remittances generated over \$200 million in revenue for the Postal Service.

By the Postal Regulatory Commission's (PRC) conservative estimates, the proposal of CPI +2% (+1%) would increase the postage costs of our mail programs by perhaps more than 27% over a five year period. When the 4.3% exigent surcharge was imposed, PCH was forced to cut promotional mail volumes by 10%. Such impacts ripple across the postal revenue streams with accompanied reductions in First-Class responses, reductions in merchandise shipments, reductions in First-Class bills, and reductions in customer payments. This negative mail multiplier impacts not only market dominant products, but competitive products as well. Much of the strength of our promotions comes from the free-credit / bill-me later model for our value-based product offerings. Margins are low in this commerce model. Each time our direct mail channel is threatened with price increases that exceed inflation, we accelerate investments in our higher ROI digital channels, of which e-commerce is only a part. Our non-commerce digital advertising and free play-and-win digital game properties are the higher margin growth areas.

Now more than ever it is critical that the PRC understands the effect that its proposal will have on Publishers Clearing House and other users of the mail. The CPI cap provided welcome predictability that allowed us to plan for moderate rate increases by the Postal Service. With the CPI price cap, we can establish more accurate multi-year budgets which provides for better promotional strategy and ultimately, greater success in meeting plan targets. Consumers demand more one-on-one curated offers and appropriate pacing of contacts. This puts downward pressure on mail volumes in general. A declining trend is already evident. In such trends, incentives are needed to stimulate growth, not excessive price increases which only serve to accelerate the decline. In the past, PCH has been able to partially offset postage increases by working with our business partners to find operating efficiencies and price reductions. But those opportunities are largely exhausted following rounds of negotiations, often accompanied by

consolidating into single-sourced suppliers to achieve deeper discounts and rebates across print, material, transportation, and merchandise vendors.

Rather than ask the Postal Service to tighten its belt and improve service to retain volume, the PRC's proposal simply allows the Postal Service to increase prices to cover their costs. The biggest cost challenge the Postal Service has faced is the ~\$55 billion retiree health prefunding requirement. This obstacle is not one to be resolved through the PRC rate making proposal and unfairly shouldered by rate payers. It is the responsibility of Congress to act and restructure the funding across a realistic time frame, akin to other organizations. It's no doubt that the negative aura around postal finances has already caused some postal customers to shift volume away from using the mail and, has discouraged new business for the Postal Service.

Furthermore, the additional rate authority for adhering to service standards and productivity is not logical as that places a premium on the service level mailers are already paying for and not consistently receiving. I respectfully suggest that a more appropriate focus is on improved understanding and management of the costs within the Postal Service. **Predictable and consistent service and postage increases capped at the rate of inflation are necessary for mail to continue to be a desirable advertising and communication vehicle. Absent this, the Postal Service is guaranteed to lose more mail and revenue than they already have. The volume trend is not favorable; the proposed rate increases will accelerate that decline.**

Respectfully,

Wendy Smith

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